



MUNICIPAL SPENDING CAP AND MOTOR VEHICLE PROPERTY TAX CAP

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ISSUE

This report addresses several questions about the recently enacted municipal spending cap and motor vehicle property tax cap. The specific questions and answers follow.

How does the municipal spending cap work? Does it apply to all municipal aid?

The municipal spending cap is a feature of the new municipal revenue sharing grant program funded by state sales tax revenue directed to the Municipal Revenue Sharing Account (MRSA). Towns receive the revenue sharing grants beginning in FY 17. The law sets each town's grant amount for FYs 17 to 19 and requires the Office of Policy and Management (OPM) to determine the grant amounts for FY 20 and thereafter according to a newly established statutory formula ([CGS § 4-66/\(d\) and \(f\)](#)).

Beginning in FY 18, OPM must reduce the grants to municipalities whose spending, with certain exceptions, exceeds the specified spending cap. The cap is the greater of the inflation rate or 2.5% or more of the prior fiscal year's authorized general budget expenditures. In other words, the cap in any given year is either the inflation rate or 2.5%, whichever is greater. Towns that increase their general budget expenditures over the previous fiscal year by an amount that exceeds this cap receive a reduced revenue sharing grant. The reduction is equal to 50 cents for every dollar the municipality spends over the cap ([CGS § 4-66/\(h\)](#)).

Towns must annually certify to the OPM secretary, on an OPM-prescribed form, whether they have exceeded the spending cap and if so, the excess amount.

The spending cap applies only to the municipal revenue sharing grants. It does not apply to the other grants also funded through MRSA (e.g., supplemental payments in lieu of taxes and motor vehicle property tax grants) or any other state aid to municipalities.

What types of municipal expenditures are exempt from the spending cap? How will municipalities calculate these exemptions?

By law, the spending cap does not apply to expenditures:

1. for debt service, special education, or implementing court orders or arbitration awards;
2. associated with a major disaster or emergency declaration by the president or disaster emergency declaration issued by the governor under the civil preparedness law; or
3. for motor vehicle property tax grants or municipal revenue sharing grants disbursed to special taxing districts ([CGS § 4-66\(h\)](#)).

The law does not specify a process for calculating these exemptions. Presumably, municipalities will determine which, if any, of their expenditures fall into these exempt categories and subtract them from their total general budget expenditures to calculate the percentage increase over the prior fiscal year.

How does the motor vehicle property tax cap affect special taxing districts (e.g., fire districts)? Will these districts receive funds to offset the revenue loss attributed to the cap?

Special taxing districts, like municipalities and boroughs, are subject to the motor vehicle property tax cap and eligible for a new state grant to mitigate the revenue loss attributed to the cap.

Beginning with the 2015 assessment year, the law allows municipalities and special taxing districts to tax motor vehicles at a different rate than other taxable property, but it imposes a cap on the mill rate for motor vehicles. The cap is 32 mills for the 2015 assessment year and 29.36 mills for the 2016 assessment year and thereafter. It applies to any town, city, borough, consolidated town and city, consolidated town and borough, and village, fire, sewer, or combination fire and sewer districts, and other municipal organizations authorized to levy and collect taxes. This provision supersedes any special act, municipal charter, or home rule ordinance ([CGS § 12-71e](#)).

The law further limits the motor vehicle mill rate special taxing districts and boroughs may impose by barring them from setting a rate that, when combined with the municipality's motor vehicle mill rate, exceeds the capped rate. Presumably, a district or borough will set its motor vehicle mill rate after the municipality in which it is located does so. For example, if a municipality sets its motor vehicle mill rate at 28 mills for the 2015 assessment year, a district could impose a motor vehicle mill rate of up to 4 mills. If, however, the municipality sets its motor vehicle mill rate at 32 mills, the district could not levy a tax on motor vehicles.

Municipalities and districts that experience a revenue loss due to the cap will receive a new motor vehicle property tax grant from the state. The grants are funded by a portion of sales tax revenue directed to MRSA.

Under the new grant program, municipalities receive a grant amount that takes into account the motor vehicle mill rates of their taxing districts; they must disburse a portion of the grants to such districts. Specifically, the grant is equal to the difference between the (1) amount of property taxes a municipality and any district located there levied on motor vehicles for the 2013 assessment year and (2) amount of the 2013 levy at 32 mills in FY 17 or 29.36 mills in FY 18 and subsequent years. OPM must disburse the grants annually by August 1. Municipalities must, within 15 calendar days after receiving the grants, disburse to a district the portion of the grant attributable to it ([CGS § 4-66/\(c\)](#)).

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